INTERNAL AUDIT PROGRESS REPORT TO 31st AUGUST 2015

To:	**Audit and Accounts Committee**
Date:	**22nd September 2015**
From:	**Head of Internal Audit and Risk Management**
Electoral Division(s):	**All**
Forward Plan Ref:	**N/A**
Key decision:	**No**
Purpose:	**To report on the main areas of audit coverage for the period 1st July to 31st August 2015 and the key control issues arising.**
Key Issues:	**N/A**
Recommendation:	**The Audit and Accounts Committee is asked:**

    a) to note and comment on the progress being made against the approved Internal Audit Plan

    b) Comments on and approves the in-year changes to the Audit Plan as set out in Appendix A

    c) to note the material findings and themes identified by Internal Audit reviews completed in the period.

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LGSS Internal Audit & Risk Management

Cambridgeshire County Council

Quarterly update report

Q2

1.   INTRODUCTION

1.1   *The Reporting Process*

This quarterly report provides stakeholders, including Strategic Management Team (SMT) and the Audit & Accounts Committee, with a summary of internal audit activity for the second quarter 2015/16 and the proposed coverage for the rest of the year.

1.2   *Background*

The changing public sector environment increasingly necessitates an ongoing re-evaluation of the type and level of coverage required to give stakeholders the appropriate level of assurance on the control environment of the Council.

The Head of Audit must provide an annual internal audit opinion on the entire internal control environment based on an objective assessment of the framework of governance, risk management and control. This includes an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems. To support this, internal audit must develop and deliver a risk-based plan which takes into account the organisation's risk management framework and includes an appropriate and comprehensive range of work, which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by stakeholders.

To develop this plan, there must be a sound understanding of the risks facing the Council. The Corporate Risk Register is used as a key source of information, as is the Internal Audit risk assessment of the organisation, and these are used to form the basis of the Internal Audit plan.

The Audit Plan should be reviewed and robustly challenged by the Strategic Management Team, the S151 Officer and the Audit & Accounts Committee.

In the last quarter the Audit Plan has been re-assessed in line with current risks facing the organisation and updated accordingly. The planning process has necessitated a thorough evaluation of the appropriate level and scope of coverage required to give stakeholders an appropriate level of assurance on the control environment. More importantly it should be noted that an on-going re-evaluation of this will be required throughout the year and, on a quarterly basis, the Audit Plan will be formally re-assessed and resources re-prioritised towards the areas of highest risk.

This plan is based on *assurance blocks* that each give an opinion on the key control environment elements, targeted towards in-year risks, rather than a more traditional cyclical approach that looks at each system over a number of years. For each *assurance block*, the most appropriate level of coverage necessary to provide the most effective annual assurance opinion and added value to the organisation has been developed. The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and *making every penny count*.

This review has resulted in a significant change to the proposed plan for the year. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

1.3   How assurance can be given

As detailed above, the plan is split into both assurance blocks and directorate areas for ease of understanding as well as to demonstrate how assurance on the organisation's control environment can be given. There are a number of key audit themes:

1.3.1   Financial and Other Key Systems

This is the traditional area of internal audit work, required by external audit, and very much focuses on providing the Section 151 officer assurance that "the Council has made arrangements for the proper administration of its financial affairs." These systems are agreed in advance with External Audit and are used as the basis by which External Audit area able to place reliance on Internal Audit work. These are generally the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.

1.3.2   Compliance

Compliance work is fundamental as it provides assurance across all Directorates and therefore underpins the Head of Internal Audit opinion on the control environment. The proposed coverage for compliance is underpinned by an assessment of the Council's framework of controls (often underpinned by policies and procedures) and includes those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether key policies and procedures are being complied with in practice. This work will continue to challenge the existing controls to ensure that they are modern, effective and proportionate.

1.3.3   Value for Money

This assurance block incorporates the on-going work on initiatives to promote the value of *making every penny count*. Each audit we undertake should have value for money at its core, and the team will be suggesting areas where this work can be expanded.

1.3.4   Procurement, Monitoring and Improvement

Within this assurance block, a number of days have been included for contract reviews. The first stage will be to identify the potential contracts for review and will incorporate open-book reviews where required to ensure that these are operating in accordance with the terms of the contracts. In addition, a number of cross-cutting reviews are planned including price/quality reviews, contract extensions and tender estimates.

1.3.5   Anti-Fraud and Corruption

This is a key development area and a high-risk area across the public sector. This includes both reactive and pro-active elements, along with a number of initiatives to raise awareness of the council's anti- fraud and corruption culture and to report on the arrangements in place. In addition to the time allocation for fraud investigation work including the risk assessment process for referrals, the assurance block includes an allocation of days for pro-active fraud strategy work.

1.3.6   ICT

The ICT assurance block includes reviews of key ICT risk areas – major ICT failure and ICT strategy. It also includes an allocation of time for the review of general computer controls to provide assurance that systems are correctly processing information accurately and on a timely basis. The assurance block also incorporates time for data analytics work.

1.3.7   Policies and Procedures

A number of policies and procedures will be reviewed to ensure these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved. For this year the focus will be on the anti-fraud and corruption policies and procedures however each audit undertaken should similarly the current policies and procedures in the area being covered.

1.4   How Internal Control is reviewed

There are three elements to each internal audit review. Firstly, the control environment is reviewed by identifying the objectives of the system and then assessing the controls in place

mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to give an assurance on the control environment.

However, controls are not always complied with, which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are being complied with in practice. This element of the review enables internal audit to give an opinion on the extent to which the control environment, designed to mitigate risk, is being complied with.

Finally, where there are significant control environment weaknesses or where the controls are not being complied with and only limited assurance can be given, internal audit undertakes further substantive testing to ascertain the impact of these control weaknesses.

In future it is intended to give three opinions at the conclusion of each audit, rather than just one. The opinions will be:

- Control Environment Assurance
- Compliance Assurance
- Organisational Impact

In addition, the following updated definitions are proposed:

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Moderate	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.

Good	The control environment has largely operated as intended although some errors have been detected
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational impact will be reported as major, moderate or minor. All reports with major organisation impacts will be reported to SMT along with appropriate directorates agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Specifically for the compliance reviews undertaken, the following definitions will be used to assess the level of compliance in each individual reviewed:

Opinion for Compliance Audits – Levels of Compliance	
Level	Definitions
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

2.   SUMMARY OF AUDIT ACTIVITY

2.1   Since the previous Progress Report to the Audit and Accounts Committee in July 2015, the following audit assignments have reached completion as set out below in table 2:

Table 2: Finalised Assignments

No.	Directorate / Description	Assignment	Assurance Opinion
1	Children, Families and Adults	Vulnerable Clients Monies Management	Limited
2	Children, Families and Adults	Better Care Fund	Substantial
3	Children, Families and Adults	Traded Services	Moderate
4	Economy, Transport and Environment	Waste PFI	Substantial
5	Economy, Transport and Environment	March Estover Playing Fields	N/A
6	Economy, Transport and Environment	Central Library Enterprise Centre	N/A
7	Economy, Transport and Environment	Highways Revaluation	N/A

2.2   Summaries of the finalised reports with moderate or less assurance are provided in Section 6.

Section 3

3. AUDIT PLAN 2015/16

The revised audit plan is attached at **Appendix A** to this report. The audit plan remains at the same number of previously agreed days, i.e. 1819.

This is a high level summary of the allocation of those resources:

3.1 Resource Allocation by Directorate

Directorate	Audit Days	%
Children, Families & Adults (CFA)	265	15%
Schools audits (CFA)	218	12%
Economy, Transport & Environment (ETE)	94	5%
Customer Service & Transformation (CST)	19	1%
LGSS	171	9%
Public Health (PH)	38.5	2%
Cross-Cutting reviews	821	45%
Unallocated audit days	192.5	11%
	1819	**100%**

The audit plan contains a number of assurance blocks that underpin the control environment. This is a high level summary of the plan by those assurance blocks:

3.2 Assurance Blocks

Assurance Block	Risk Area	% Coverage*
Safeguarding	Safeguarding	26%
Legal	Legislative non-compliance	30%
Value for Money	Financial Management	33%
	Assets & Capital	13%
	Procurement	21%
	Fraud & Corruption	43%
Strategic	Staff Resources	20%

| Planning	Business Planning	16%
	Business Disruption	6%
	Project Management	12%
Information	Information Management	13%
	Information Systems	12%
	Performance Management	13%
Stakeholders	External Partnerships & Co-Working	10%
	Customers & Community	11%
Key Financial Systems	Key Financial Systems reviews	6%

*   This is the audit coverage in the area represented as a % of total internal audit activity.
It will add up to over 100% as some audit reviews will cover more than one area.

3.3   Old vs. Proposed Audit Plans

The following tables and charts show the summary differences between the old and proposed new internal audit plans:

3.3.1   High-Level Assurance Blocks:

Assurance Block	% Coverage	
	Original Plan	New Plan
Safeguarding	22	26
Legal	28	30
Value for Money	25	28
Strategic Planning	13	14
Information Governance	14	13
Stakeholders	10	11
Key Financial Systems	6	6
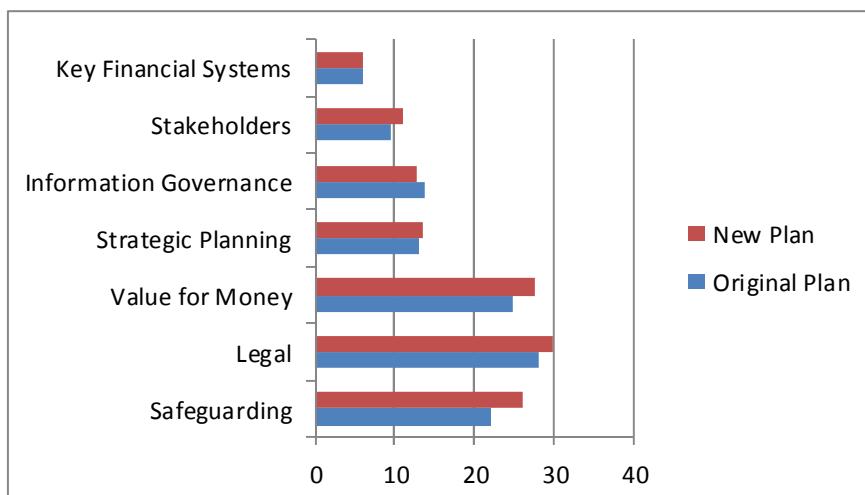
3.3.1   Change by Risk Area:

Assurance Area	Risk Area	% Coverage		
		Original Plan	New Plan	+ / -
Safeguarding	Safeguarding	22%	26%	4%
Legal	Legislative non-compliance	28%	30%	2%
Value for Money	Financial Management	28%	33%	5%
	Assets & Capital	10%	13%	3%
	Procurement	20%	21%	1%
	Fraud & Corruption	41%	43%	2%
Strategic Planning	Staff Resources	20%	20%	1%
	Business Planning	13%	16%	3%
	Business Disruption	6%	6%	-1%
	Project Management	13%	12%	-1%
Information Governance	Information Management	13%	13%	0%
	Information Systems	15%	12%	-3%
	Performance Management	13%	13%	0%
Stakeholders	External Partnerships & Co-Working	9%	10%	1%
	Customers & Community	10%	11%	1%
Key Financial Systems	Key Financial Systems reviews	6%	6%	0%
				18%
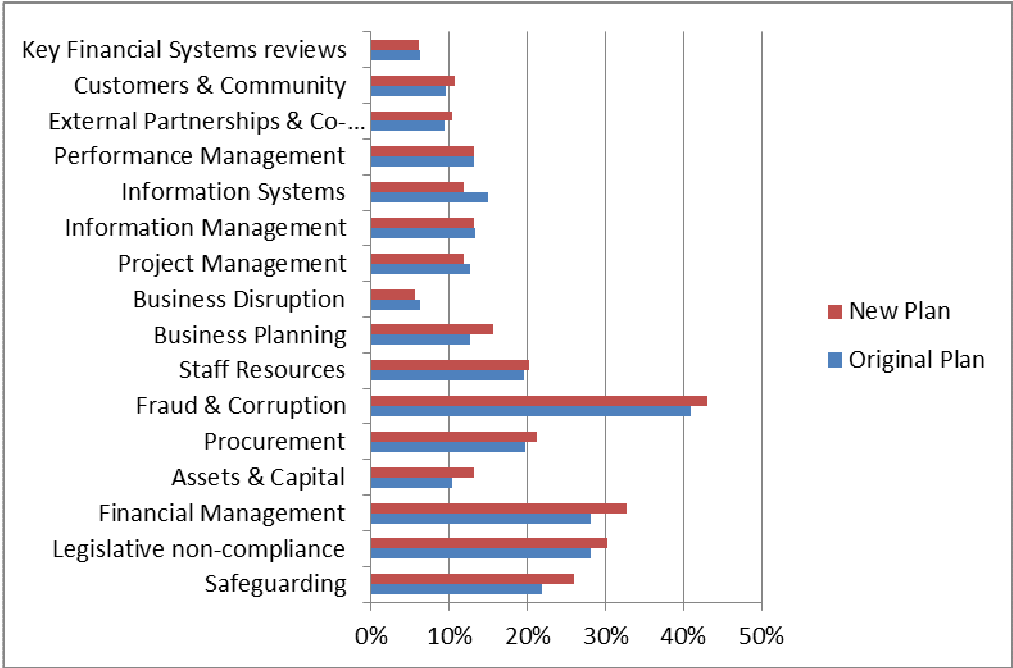
4. FRAUD AND CORRUPTION UPDATE

Police Referral Outcomes

4.1   A case is currently being progressed by the Crown Prosecution Service (CPS) and Internal Audit continues to support the case in the provision of information to the Police and CPS. Formal interviews with staff involved in the case have now taken place.

Referrals

4.2   Internal Audit is supporting a Working Party aimed at reducing the risk of fraud in the Council's Supported Living services, following an investigation last year into the financial management of service users' monies at one of the Council's supported living establishments. The Working Party has now drawn up an Action Plan for implementing the remaining outstanding actions from the investigation report.

4.3   The team has now completed its work on a Safeguarding investigation into concerns that a service user may not be receiving the income they are entitled to from their father's private pension. The team's Accredited Financial Investigator obtained the relevant bank statements by Court Order and a full review was conducted; Internal Audit met with the Safeguarding of Vulnerable Adults (SOVA) lead to feed back the results of the investigation and agree next steps, which are now being taken forward by the service.

4.4   Following two referrals from Social Care teams, one investigation relating to suspected fraud or misuse of Direct Payments has been completed and the findings reported back to the service, while another investigation is currently ongoing. At the same time, Internal Audit is conducting an audit review of Direct Payments, which will take into account the findings of the two investigations.

4.5   The Counter Fraud team is also providing support following two further referrals relating to concerns about alleged fraud, one from social care and one from a school.

Developments

4.6   The service will be going to tender for a case management system, which will enable the service to record and manage investigations across all LGSS partners and client sites. This system will ensure the service is compliant with the Criminal Procedure and Investigations Act (CPIA) 1996, and ensure the service complies with the Data Protection Act.

4.7   The initial background development has been concluded for the service website. The web developer is currently creating the initial draft of this site for review. This will enable easy reporting of alleged fraud relating to misappropriation of public funds.

4.8   The anti-fraud and corruption policies are being updated. This includes a new Prosecution Policy which is in final draft, ready for Committee approval.

Section 5

5 IMPLEMENTATION OF MANAGEMENT ACTIONS

5.1   The outstanding management actions as at August 2015 are summarised in Table 3, it includes a comparison with the percentage implementation reported at the previous Committee (bracketed figures).

Table 3: Outstanding Management Actions

	Category 'Fundamental' recommendations		Category 'Significant' recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total
Implemented	27	100% (100%)	43	70% (62%)	70	80% (74%)
Actions due within last 3 months, but not implemented	0	0% (0%)	4	7% (26%)	4	5% (18%)
Actions due over 3 months ago, but not implemented	0	0% (0%)	14	23% (11%)	14	16% (8%)
Totals	27		61		88	

5.2   There are currently no outstanding fundamental recommendations. 18 significant recommendations have not been implemented. These recommendations are continually being reviewed by Internal Audit to determine if they are still relevant and merit their significant

categorisation. Directors will be consulted as to their status and any revisions to implementation dates.

Section 6

6. SUMMARIES OF COMPLETED AUDITS WITH MODERATE OR LESS ASSURANCE

A **CHILDREN, FAMILIES AND ADULTS**

A1 **TRADING UNITS**

We identified a range in the quality of annual business plans produced by CFA Trading Services, with some units not producing an annual plan. The annual planning process can also provide management with the means to assess their risk management activities by identifying risks and how these are, or can be, mitigated. Where business plans are not produced, Internal Audit has seen little evidence of risk management actions within these units.

All trading units currently return 100% of any additional financial surplus created, over and above any income targets, to the corporate centre at the end of the financial year. Conversely, any deficits are also funded by the corporate centre. The current policy effectively creates a culture of short-termism within trading units because, beyond their income targets, there are few direct incentives to bring in additional income or make savings.

One particular issue of concern within the Learning Directorate is the lack of consistent management information received by senior management and the Service Development Team, due to the fragmentation of management information systems.

A2 **VULNERABLE CLIENTS MONIES MANAGEMENT**

This review was undertaken alongside the Service User Money Management Working Party, which is currently working to review the management of service user finances by front-line provider services and Council contractors; given that this work is already underway, and Internal Audit is represented on the Working Party, this audit did not examine these areas, but focused instead on the delegation of authority for managing service user finances through Deputyships and Appointeeships.

From our review, we provided limited assurance over the current systems in place for the recording and management of Cambridgeshire's corporate Deputyship/Appointeeship clients' status and funds.

Plans are in place to transfer the administration of corporate Appointeeships for clients in residential care to the LGSS Financial Transactions team. In light of this, and the fact that guidance regarding Appointeeships clients based in the community is out of date and not being followed in practice, it has been agreed that LGSS Audit will undertake a separate follow-up review looking specifically at Appointeeships.

The Court of Protection Deputyships team is experiencing major capacity issues, largely due to their outdated system of recording Deputyship client status, expenditure and income. An adequate electronic database system would increase capacity by enabling greater automation of manual tasks, as well as increasing the detection rate of possible issues around fraud or misuse of funds. The team would also benefit from developing a clear set of written processes and procedures, and a system to ensure care providers are made aware of the Council's requirements regarding our clients who are under Deputyship Order.

The Deputyships service has also agreed a number of actions to improve the stewardship of client assets, including the development of a procedure to create financial plans for each individual client and an improved procedure for house clearances.